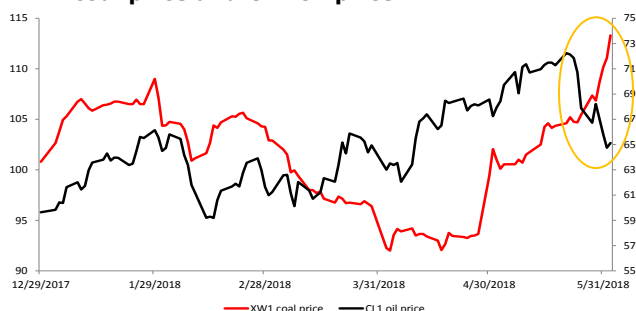


Rising spread stemmed by higher coal price and lower oil price.

Despite below-than-expected performance in 1Q18, we expect strong recovery in the performance driven by rising coal price and lower oil price. Coal price has surged by more than 12% in the last month to USD 113/Mt, the highest price in the last 2 years. Note that China is currently entering summer season when demand for coal tends to elevate while supply tightens. Hence, we expect coal price to remain strong in the upcoming months. On the flip side, oil price has fallen by more than 10% in the last two weeks to USD 64.8 per barrel, concerning production cut curb from OPEC. Factoring the two catalysts, we see ADRO to be the main beneficiary from the rising spread as ASP will surge while cost will drop, giving higher margin for the company. Additionally, ADRO is currently ramping up their production after soft performance during 1Q18 which should give additional boost to their performance in the upcoming quarters.

XW1 coal price and CL1 oil price

Source: Bloomberg, Sinarmas Investment Research

Undemanding valuation. ADRO is currently trading at 9.4x FY18e forward PE (-0.6SD from its 5 years average PE), giving an attractive valuation and golden opportunity to re-enter on the stock. ADRO share price has fallen by more than 23% from its peak this year due to moderate performance during 1Q18. We believe higher coal price, better coal production as well as lower oil price to be a turnaround story for ADRO.

Reiterate BUY call on ADRO with FY18 target price at 2,480 derived via DCF valuation. We remain to like ADRO as we believe their coal production along with their earnings should recover in the upcoming quarters. Rising coal price and lower oil price as well as undemanding valuation will be another catalyst to ride on the momentum for ADRO.

Highlights (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,522	3,323	3,456
% growth	-6%	29%	8%	-6%	4%
Gross Profit	919	1,283	1,304	1,279	1,328
Net Profit	335	483	474	499	520
% growth	120%	44%	-2%	5%	4%
Gross Margin (%)	36%	39%	37%	38%	38%
Net Margin (%)	13%	15%	13%	15%	15%
Return on Equity (%)	9%	12%	11%	10%	10%
Return on Assets (%)	5%	7%	6%	7%	6%
EPS	0.01	0.02	0.01	0.02	0.02

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Stock Information

Sector	Coal Mining
Bloomberg Ticker	ADRO IJ
Market Cap. (IDR tn)	59.8
Share Out./Float (mn)	31,986/14,028
Current Price	IDR 1,970
52-week Target Price	IDR 2,480
Upside (%)	25.9%

Share Price Performance

52W High (01/29/18)	2,650
52W Low (05/18/17)	1,395
52W Beta	1.50
YTD Change (%)	8.1%

Relative Valuations

Trailing P/E	9.2x
Forward P/E	9.4x
P/BV	1.2x
EV/EBITDA	4.2x

Income Statement (USD Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,524	3,258	3,522	3,323	3,456
Cost of Revenue	(1,839)	(2,117)	(2,368)	(2,170)	(2,259)
Gross Profit	685	1,142	1,154	1,153	1,196
Operating Expense	(151)	(184)	(202)	(200)	(211)
Other Income (Expense)	54	(6)	(18)	(17)	(17)
EBIT	588	952	934	936	968
EBITDA	919	1,283	1,304	1,279	1,328
Net Financing	(41)	(34)	(29)	(31)	(26)
Share in Net Loss of Associates & JV	0	12	24	20	21
EBT	547	930	929	925	963
Tax	(206)	(393)	(390)	(370)	(385)
Non Controlling Interest	6	53	65	55	58
Net Profit for the Year	335	483	474	499	520

Balance Sheet (USD Mn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	1,077	1,207	1,493	1,595	2,107
Trade Receivables	305	321	347	328	341
Other Current Assets	211	204	237	224	233
Total Current Assets	1,593	1,979	2,078	2,146	2,680
Mining Properties	2,437	2,355	2,406	2,441	2,472
Fixed Assets	1,544	1,507	1,899	2,025	1,984
Other Non Current Assets	949	973	977	972	980
Total Assets	6,522	6,814	7,360	7,585	8,117
Bank Loans	123	201	123	116	121
Other Current Liabilities	522	572	619	586	610
Total Current Liabilities	645	773	742	702	731
Bank Loans	1,296	1,156	1,250	1,179	1,226
Other Non Current Liabilities	796	793	883	812	846
Total Liabilities	2,736	2,723	2,875	2,694	2,803
Share & APIC	1,497	1,497	1,497	1,497	1,497
Retained Earnings	1,628	1,967	2,300	2,650	3,015
Non Controlling Interest	639	623	688	744	801
Other Components of Equity	21	4	0	0	0
Total Equity	3,786	4,092	4,485	4,891	5,314
Total Equity & Liabilities	6,522	6,814	7,360	7,585	8,117

Cash Flow (USD Mn)	2016	2017	2018E	2019F	2020F
Net Income	335	483	474	499	520
Depreciation & Amortization	379	325	370	343	360
Change in Working Capital	34	(211)	231	2	0
Cash Flow from Operating	747	598	1,076	845	881
Capital Expenditure	(303)	(167)	(634)	(332)	(173)
Mining properties	(563)	(39)	(180)	(172)	(177)
Change in Long Term Assets	423	(24)	(3)	5	(8)
Change in Long Term Liabilities	89	(3)	90	(71)	33
Cash Flow from Investing	(353)	(234)	(727)	(570)	(325)
Change in Share & APIC	0	0	0	0	0
Change in Short Term Loans/Bonds	31	83	(75)	(9)	6
Change in Long Term Loans/Bonds	(149)	(140)	94	(71)	47
Dividends Paid	(94)	(144)	(142)	(149)	(155)
Others	192	(33)	61	55	58
Cash Flow from Financing	(19)	(234)	(62)	(173)	(44)
Change in Cash	374	130	286	102	512
Beginning Cash	702	1,077	1,207	1,493	1,595
Ending Cash	1,077	1,207	1,493	1,595	2,107

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	9%	12%	11%	10%	10%
ROA	5%	7%	6%	7%	6%
Gross Margin	27%	35%	33%	35%	35%
Operating Margin	23%	29%	27%	28%	28%
EBITDA Margin	36%	39%	37%	38%	38%
Net Profit Margin	13%	15%	13%	15%	15%
Liquidity & Solvency					
Current Ratio	1.7	1.6	2.0	2.3	2.9
Debt to Equity	0.4	0.3	0.3	0.3	0.3
Debt to Assets	0.2	0.2	0.2	0.2	0.2
Valuation					
Price to Earning (PE)	14.9	12.1	12.4	11.7	11.3
Price to Book (PBV)	1.6	1.4	1.3	1.2	1.1

Key Assumptions	2016	2017	2018E	2019F	2020F
Coal Price (\$/ton)	65.7	85.0	85.0	80.0	80.0
ASP Blended (\$/ton)	43.9	59.1	63.8	57.6	57.6
Coal Production	52.6	51.8	53.8	54.9	57.5
Stripping Ratio	4.4	4.6	4.9	4.8	4.8

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

BUY: Share price may rise by more than 15% over the next 12 months.

ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

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